



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: B1/15C  
C2/5C

4 August 2015

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

### **Selling of Life Insurance Products**

I am writing in relation to the circular entitled “Initiative on Financial Needs Analysis” issued by the Hong Kong Federation of Insurers (“HKFI”) on 14 July 2015 (“FNA Circular”) and the Guidance Note on Underwriting Long Term Insurance Business (other than Class C Business) (“GN16”) issued by the Office of the Commissioner of Insurance (“OCI”) on 30 July 2015. With a view to assisting authorized institutions (“AIs”) in complying with regulatory standards in the light of the latest developments, and after consulting the OCI, the Hong Kong Monetary Authority (“HKMA”) hereby provides guidance to AIs in their selling of life insurance products.

To implement the practices as set out in this circular, AIs should review and put in place adequate policy, procedures and controls, and provide sufficient training to staff. AIs should also maintain proper documentation on the adoption of these practices in their selling process. For the avoidance of doubt, the existing requirements of the HKMA including those as set out in the HKMA’s circular of 8 December 2014<sup>1</sup> (“NLTI Circular”) remain applicable unless otherwise stated in this circular. These practices are consistent with the guidance by the OCI and the HKFI to achieve the common objective of customer protection.

### ***Ensuring Customer Suitability***

It is essential that AIs take all reasonable steps to adopt adequate selling processes to ensure that they treat customers fairly. Under this overarching principle, AIs should ensure the recommended life insurance plan is suitable to the needs and resources of their customers. In doing so, AIs should conduct proper financial needs analysis (“FNA”) and assessment on suitability of the plan for customers before making recommendation of any life insurance plan to them.

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<sup>1</sup> Entitled “Selling of Non-Linked Long Term Insurance (“NLTI”) Products”.

### Disallowing opt-out of FNA

The FNA Circular requires that any FNA cannot be opted out, unless an exemption applies, and that a customer must respond to all the questions and multiple choice options as set out in the Appendix thereto. AIs should note this requirement and when inviting a customer to complete the FNA form, remind him/her that the insurance company will reject the application if the customer does not reply any relevant question in the FNA form.

### Needs and Resources of Customers

#### *(1) The exempted types*

In the FNA Circular, it is not a mandatory requirement that an application for certain specified types<sup>2</sup> of new life insurance policies<sup>3</sup> has to be accompanied by a FNA form (“the exemption”). In this connection, while having regard to the OCI’s considerations behind such an exemption, the HKMA hereby draws AIs’ attention to the following to ensure appropriate protection to bank customers given the unique operating environment and nature of the clientele of AIs:

- (a) Regarding refundable insurance policies providing hospital cash, medical, critical illness, or personal accident cover, AIs should not apply the exemption arrangement if any policy includes a substantial savings component<sup>4</sup>. This follows the OCI’s considerations for the exemption, including the adoption of a risk-based approach and due assessment of such factors as the key features and the usual amounts of premiums involved in such products.
- (b) In the event that a FNA form does not accompany an application for any of those specified types of policies (where the principle under (a) above has been followed), the relevant requirements in Section 3 (“Ensuring customer suitability”) of the Annex to the NLTII Circular are not mandatory but that AIs should still apply the following standards as a minimum:
  - (i) Through inviting the customer to answer Question 1<sup>5</sup> in the Appendix

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<sup>2</sup> These include: (i) term insurance policies; (ii) refundable insurance policies providing hospital cash, medical, critical illness, or personal accident cover; (iii) yearly renewable insurance policies (without cash value) for critical illness/medical cover; (iv) group policies.

<sup>3</sup> Under Class A of long term business specified in Part 2 of the First Schedule to the Insurance Companies Ordinance.

<sup>4</sup> In assessing whether an insurance policy carries substantial savings component, AIs should consider substance over form. For example, AIs should take into account the nature and features of the insurance policy, irrespective of whether such a savings component is explicitly set out in the product name and/or product document(s).

<sup>5</sup> “Question 1: What are your objectives of buying our product? (tick one or more)

- a) Financial protection against adversities (e.g. death, accident, disability etc)
- b) Preparation for health care needs (e.g. critical illness, hospitalization etc)
- c) Providing regular income in the future (e.g. retirement income etc)
- d) Saving up for the future (e.g. child education, retirement etc)
- e) Investment

to the FNA Circular, AIs should ascertain whether the customer has the need(s)/objective(s) which match(es) with the nature and features of the plan before making any recommendation. Based on such an assessment, the AI should explain clearly to the customer during the selling process how the recommended plan matches the customer's need(s)/objective(s).

- (ii) AIs should not recommend any insurance plan to a customer where information available to the AI reveals any issue of concern about the customer's affordability.

## *(2) Life insurance products subject to the FNA requirements*

In line with the requirement of the FNA Circular, AIs should evaluate a customer's total protection needs (if any) and the evaluation should be included in the FNA form. Considering the practices already adopted by some AIs to protect customer interests, the HKMA expects that when performing such an evaluation, AIs should duly take into account all relevant factors of the customer's circumstances, including, inter alia, the relevant items mentioned in the FNA Circular as well as the customer's existing life insurance coverage and company benefits (if any). To this end, AIs are reminded that they should seek to obtain adequate information about the customer's circumstances.

### ***Product Disclosure***

GN16 covers product information that should be provided or disclosed to customers during the selling process for non-linked long term insurance policies, e.g. key product risks, information about the insurance company's measures<sup>6</sup> in relation to the declaration of dividends/bonuses, information included in the benefit illustration, information in relation to non-guaranteed benefits, information in relation to policies to be used as collateral assignment, etc. In this light, AIs should work closely with the insurance companies and ensure that frontline staff adequately disclose and explain such information<sup>7</sup>, to the extent applicable, to customers during the selling process of NLTi plans, in addition to the features and risks as mentioned in Section 5 ("Product disclosure") of the Annex to the NLTi Circular.

### ***Implementation of Applicable Regulatory Requirements***

AIs are expected to expand the FNA form as necessary and appropriate to ensure proper selling practices and compliance with all applicable regulatory requirements, with due regard to the features and risks of life insurance products that they sell to customers.

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f) Others (Please specify \_\_\_\_\_)"

<sup>6</sup> These measures may include the profit sharing ratio between the insurance company's shareholders and participating fund.

<sup>7</sup> For example, Sections 6.6 and 6.8 of GN16, Sections 2.2.9, 3 and 4 of Appendix I to GN16 and Sections 2.2 (where relevant), 3 and 4 of Appendix II to GN16.

In view of the latest developments, the deadline for implementation of the requirements under Section 3 of the Annex to the NLTI Circular will be extended to 1 October 2015. This will allow AIs to implement these requirements having regard to the guidance in the latest FNA Circular and do it in one go. Alternatively, AIs may also implement all requirements as set out in the NLTI Circular by the original deadline of 8 September 2015<sup>8</sup> while making any further enhancements as necessary to comply with the FNA Circular no later than the HKFI's deadline of 1 January 2016. For the avoidance of doubt, the practices as set out under the "Product Disclosure" section of this circular shall take effect on the same effective date of GN16 issued by the OCI.

If you have any question on this letter, please feel free to contact Mr Kevin Sham at 2878-1594 or Ms Angel Chan at 2878-1606.

Yours faithfully,

Carmen Chu  
Executive Director (Banking Conduct)

c.c. Insurance Authority (Attn: Ms Carol Hui, Acting Assistant Commissioner of Insurance (Long Term Business))

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<sup>8</sup> In respect of those expected practices for which an individual AI has agreed with the HKMA on the specific implementation timeline(s), the agreed timeline(s) should prevail over the general timeline of 8 September 2015.